

Message Text

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PAGE 01 WELLIN 00814 170258Z
ACTION EA-12

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PARIS FOR USOECD

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SUBJECT: FURTHER REFLATIONARY MEASURES ANNOUNCED IN
BANKING AND CONSTRUCTION SECTORS

REF: 77 WELLINGTON 4908 AND 5343, WELLINGTON 311,
WELLINGTON A-3

1. BEGIN UNCLASSIFIED. SUMMARY. ON FEBRUARY 14, THE
PRIME MINISTER ANNOUNCED ANOTHER SERIES OF STEPS TO
FURTHER REFLATE THE AILING NEW ZEALAND ECONOMY. THESE
LATEST MEASURES CONCENTRATE ON CREDIT AVAILABILITY
THROUGH PRIVATE INSTITUTIONS AND ON HOUSING FINANCE.
END SUMMARY.

2. ON FEBRUARY 14, PRIME MINISTER MULDOON DELIVERED
A POLICY STATEMENT ON MOVES BEING TAKEN IN THE FINANCIAL
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PAGE 02 WELLIN 00814 170258Z

SECTOR TO COMPLEMENT THE MODEST REFLATIONARY MEASURES
LAUNCHED IN A MINI-BUDGET LATE LAST YEAR. HE
REITERATED THE GOVERNMENT'S OVERALL OBJECTIVE OF
MAINTAINING A BALANCE BETWEEN REDUCING DOMESTIC
INFLATION, ENSURING A REASONABLE LEVEL OF DOMESTIC
ECONOMIC ACTIVITY, AND IMPROVING THE BALANCE OF
PAYMENTS. THE MINI BUDGET HAD INTRODUCED SOME

STIMULATION THROUGH TAX REBATES AND REDUCTIONS, EASING OF TIME-PAYMENT RESTRICTIONS, AND GOVERNMENT-FUNDED SPECIAL WORK PROGRAMS TO COUNTER UNEMPLOYMENT. MORE RECENTLY, MONIES HAVE BEEN RELEASED FROM THE WOOL RETENTION FUND, AND TIME-PAYMENT PROVISIONS FOR NEW CAR PURCHASES HAVE BEEN LIBERALIZED. TOGETHER, THESE MEASURES ARE SEEN AS INCREASING THE MONEY SUPPLY AND, MULDOON PREDICTED, WILL CONTRIBUTE TO A DECLINE IN INTEREST RATES.

3. MULDOON'S LATEST STATEMENT ANNOUNCES MEASURES TO EASE CONDITIONS IN THE PRIVATE FINANCIAL SECTOR TO ASSURE THAT AVAILABLE CREDIT WILL EXPAND AND INTEREST RATES DECLINE. RESERVE ASSET RATIOS FOR FINANCE COMPANIES AND TRADING BANKS ARE BEING REDUCED FROM 15 PERCENT TO 12 1/2 PERCENT. THE LIMIT ON LENDING UNDER THE PERSONAL LOAN SCHEME AIMED AT WHEN RESERVE RATIOS ARE SET WILL BE INCREASED FROM DOLS 100 MILLION TO DOLS 125 MILLION, AND THE LIMIT ON LENDING UNDER THAT SCHEME BY BANKS WILL BE RAISED FROM 1 PERCENT TO 2 PERCENT OF TOTAL DEPOSITS.

4. A SEVEN-POINT PACKAGE INCREASING FUNDS AVAILABLE FOR HOUSING AND PROVIDING FOR CONTINUED CONSTRUCTION OF STATE RENTAL HOUSING AT LAST YEAR'S LEVELS WAS ANNOUNCED A FEW DAYS AGO. IN AN EFFORT TO FURTHER STIMULATE THE DEPRESSED CONSTRUCTION INDUSTRY, THE PRIME MINISTER PLEDGED IN HIS FEBRUARY 14 STATEMENT TO LIMITED OFFICIAL USE

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PAGE 03 WELLIN 00814 170258Z

ENCOURAGE THE DEVELOPMENT OF MARKETS FOR HOUSING FINANCE WITH A DIVERSITY OF MORTGAGE INSTRUMENTS AVAILABLE, AND TO ENCOURAGE THE DEVELOPMENT OF FINANCE FOR RENOVATION OF EXISTING HOMES.

5. MULDOON ALSO STATED THAT THE GOVERNMENT WILL ASSIST THE DECLINE IN INTEREST RATES BY SUCH MEASURES AS ADJUSTING THE RATE SET ON GOVERNMENT SECURITIES AND THROUGH THE RESERVE BANK'S OPEN MARKET OPERATIONS. END UNCLASSIFIED.

6. BEGIN LIMITED OFFICIAL USE. EMBASSY COMMENT:
IT IS WIDELY BELIEVED THAT EFFORTS TO SLOW DOWN THE ECONOMY HAD, BY LATE 1977, PROVEN MORE SUCCESSFUL THAN WAS DESIRABLE. RAPIDLY RISING UNEMPLOYMENT, AND THE PROSPECT OF ELECTIONS BEFORE THE END OF 1978, HAVE LED THE GOVERNMENT TO GAMBLE THAT MILD REFLATION WILL STIMULATE ECONOMIC ACTIVITY WITHOUT STIMULATING INCREASED INFLATION. REFLATIONARY MEASURES TO DATE HAVE BEEN CAUTIOUS, BUT THERE ARE RUMORS THAT THE BUDGET WILL BE INTRODUCED IN MAY OR JUNE RATHER THAN BEING HELD OVER UNTIL JULY AS IS NORMAL, AND THAT IT

WILL CONTAIN A WIDE RANGE OF REFLATIONARY MEASURES.
END LIMITED OFFICIAL USE. SELDEN

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